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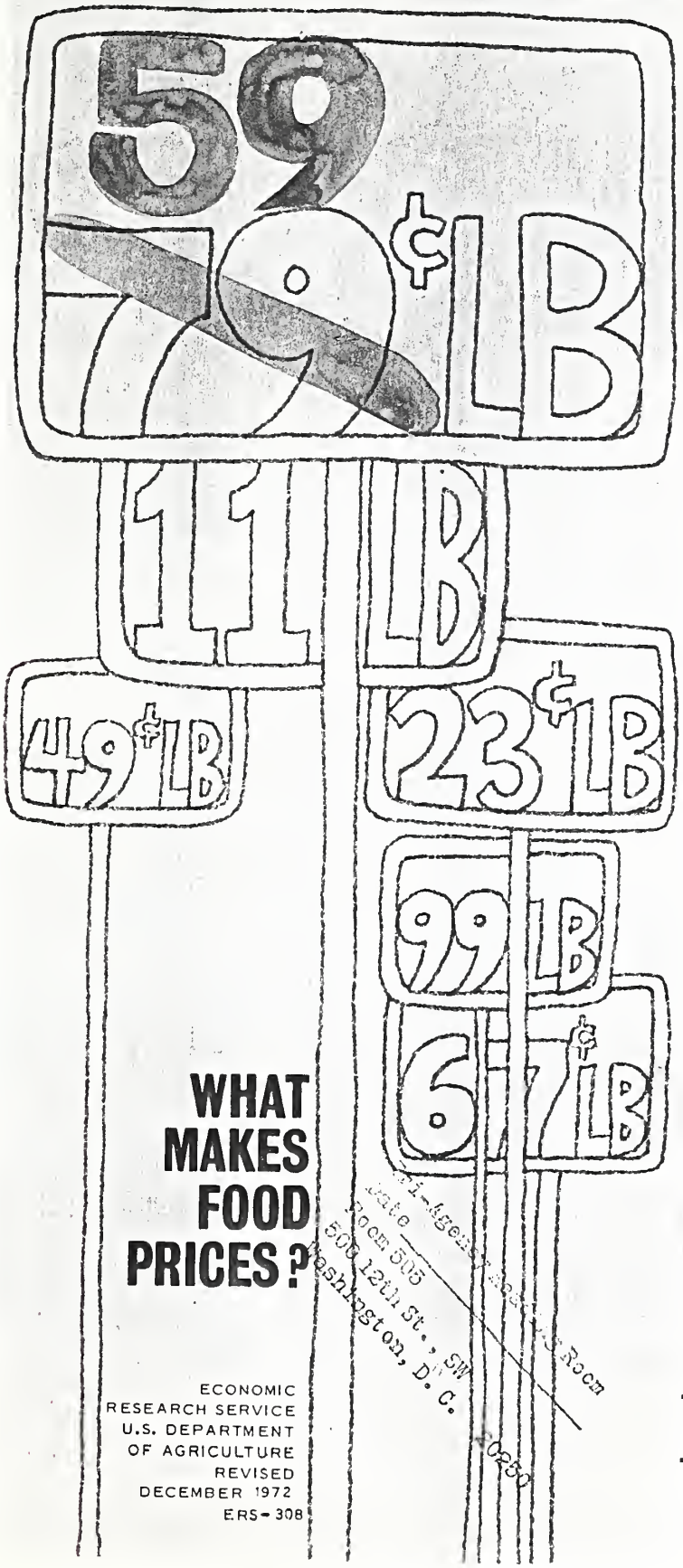

WHAT MAKES FOOD PRICES?

ECONOMIC
RESEARCH SERVICE
U.S. DEPARTMENT
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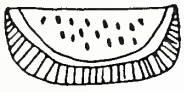
Food prices go up or down for many reasons—weather, labor costs, selling practices (like weekend sales). Here is more about why food prices vary from month to month, week to week and even day to day.

The Wayward Weather

Most consumer goods, from cards to clothespins, are produced indoors. Weather is no problem. Food, however, is produced outdoors. A long dry spell, a sudden freeze, or a hailstorm can damage or destroy a whole crop. Smaller supplies can mean higher prices.



The Out-of-Season Season

Today we can buy more foods throughout the year than ever before, thanks to canning, freezing and other ways of keeping foods.

Fresh foods, though, are still most plentiful—and cheapest—during the harvest season.

You can buy lettuce, tomatoes and other fresh fruits and vegetables in February—but they will cost more than they do in August.

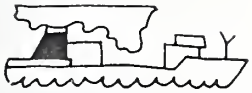
Why? Because only a few places in the country stay warm enough to grow crops in the winter. Lettuce, for instance, all comes from California, Arizona and Florida during the cold months. Supplies are smaller, transportation is more expensive.

The Genie in the Kitchen

Forty-four percent of American women today have jobs . . . and all of our homemakers seem to buy more and more foods that are pre-washed, pre-peeled, pre-cooked, pre-mixed and pre-packaged. These convenience foods save us time . . . give us extra help in the kitchen.

But someone has had to do the work . . . somewhere between the farm and the store where we bought the food. And that extra service can make convenience foods more expensive.

Of course, some convenience foods are cheaper than the fresh forms because they're more compact to ship and store, and they have a longer shelf life. Canned and frozen peas, for example, are cheaper than fresh peas.



Those Beans From Brazil

Our morning cup of coffee marks the end of a long trip. The U.S. doesn't produce much coffee. We bring in most of it from South America and Africa. So coffee beans that were grown in Brazil have to be picked and dried and put on ships for a 6,000 mile trip to our ports.

All of this adds to the price of the coffee.

The price of the coffee also depends partly on the world coffee supply. During last year the price of coffee climbed because of a freeze in Brazil—our largest supplier.

Many Roads To Market

When we spend a dollar for food, about one-third of it goes to the farmer for the raw material. But this farm food must be assembled into shipments, transported, processed, and distributed to our local stores. All of this costs about $75 billion a year. About 45 percent of this marketing bill goes to pay the 5 million people employed by the food industry. Another 40 percent goes for packaging, advertising, depreciation and other marketing costs. Transportation takes 10 percent. The remaining 5 percent is the food marketing industry's profit before taxes.

Customer's Choice

The American consumer has veto power over the food industry. If we don't like something, we don't buy it, and it vanishes from the shelves.

Over 5,000 new food items may be introduced in a single year. But only 1,500 are accepted for sale by grocers—and only 500 survive more than a year.

The price of a new product includes part of the cost to the manufacturer for developing it, testing it, creating recipes to use it, advertising it, and so forth.

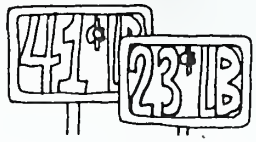
The price per package may drop as sales go up, partly because these "first costs" have been covered, partly because the day-to-day marketing costs can be spread over more packages.

Paying the Pipers

Like the rest of us, the 5 million workers in the U.S. food industry look forward to a better life—a larger home, a college education for the kids, more travel and leisure.

From time to time these hopes are translated into higher wages. And since wages make up about 45 percent of the food marketing bill, a few more pennies are tacked onto the prices we pay in the grocery store.

Even so, wages in the food industry run somewhat behind those in most major industries.



Is Food More Expensive?

To those who remember when a loaf of bread cost a nickel, a quart of milk 10 cents—and sirloin steak was 59 cents a pound—it may seem strange to call today's food one of our best values. Food prices have gone up. But our wages have gone up too—more than food costs. In fact, we Americans now spend a smaller part of our income for food than ever before—about 16 percent of income after taxes.

An hour's wage for a factory worker will buy far more steak, bread, orange juice or what-have-you today than it did in the "good old days." That hour of work would bring home less than a pound of bacon in 1914, 2 pounds in 1939, and 3½ pounds today.

Food prices have gone up. But not as fast as wages. So the real cost of food has actually gone down.

The world's most efficient agriculture and food marketing system has helped make that possible.

The Hidden Fifth

Almost a fourth of most people's grocery bill isn't groceries at all . . . It's something to wear, read, listen to or clean with.

For every 77 cents worth of groceries we load into the shopping cart 23 cents worth of laundry soap, potted plants, socks, records and even encyclopedias.

About half of our hairspray, aspirin and toothpaste is rung up on a supermarket register.

The Size of our SUPERMARKET BILL depends on

Our Incomes

As our incomes go up we buy . . .

- More steaks and roasts
- More fruits and vegetables out-of-season
- More convenience foods
- More delicacies

We spend

- More total dollars, but . . .
- A smaller percentage of our incomes for food

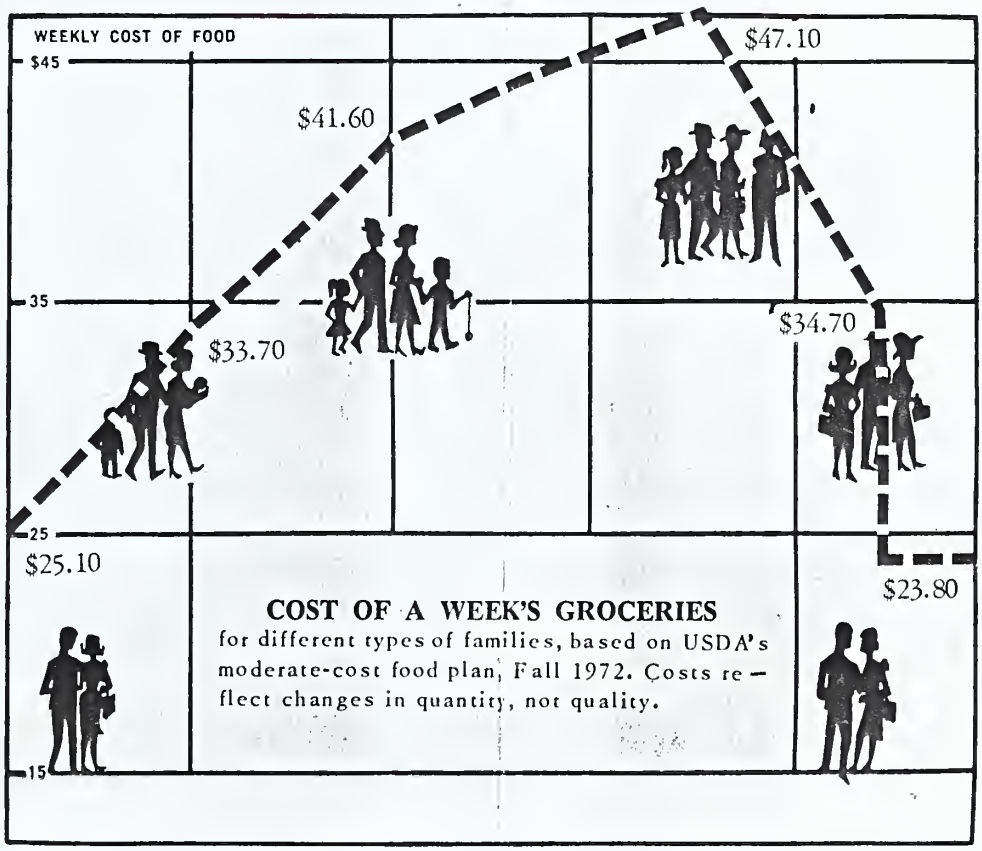
Our Families' Wants and Needs

- How many in the family
- How old they are
- How much we entertain at home

"Non-food" Purchases

- Toothpaste
- Light bulbs
- Cigarettes
- Paper towels and tissues
- Soaps and detergents
- Pet food
- Hair sprays and shampoos
- Socks and shirts

These things aren't food but they can add up to 23 cents out of each dollar we spend at the supermarket.



COST OF A WEEK'S GROCERIES
for different types of families, based on USDA's moderate-cost food plan, Fall 1972. Costs reflect changes in quantity, not quality.

U.S. DEPARTMENT OF AGRICULTURE

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